




1

Some Stats on Fraud From AFE's Gov Report

- Median Loss = \$118,000 with Median Duration = 18 months
- Asset Misappropriation = 88% of Government Fraud, but losses in this category were  $\frac{1}{3}$  of Financial Statement Fraud and  $\frac{1}{4}$  of Corruption
- Fraud detected by Tip = 45% vs 15% by Internal Audit
- Government agencies with Tip lines = 66%
- Who Tips = Employees 54%, Anonymous 17%, Customers 15%
- Tip Sources = Hotline 40%, Website 27%, Letter 24%, Email 18%
- Non-hotline Tips = Supervisors 39%, Law Enforcement 21%, Audit 13%

*2018 Report to the Nations Government Edition. Copyright 2018 by the Association of Fraud Examiners, Inc.*



2



## Relationship of Size to Fraud Risk

- Less than 100 EE's = fewest cases but largest median losses
- 100 to 999 EE's = slightly more cases, but half the median loss
- 1,000 to 9,999 EE's = Most cases, but half again the median loss

2018 Report to the Nations Government Edition. Copyright 2018 by the Association of Fraud Examiners, Inc



3



4



There are three types of fraud:

- Financial statement fraud
- Asset misappropriation (transactional)
- Corruption (accepting kickbacks, engaging in conflicts of interest)

5



There are three conditions that are generally present when fraud occurs (known as the Fraud Triangle):

- Incentives/pressures
- Opportunity
- The ability to rationalize committing a fraudulent act

6



## Incentives/pressure

- Could be specific to an employee – financial need or fear of the loss of a job
- Could be organizational – such as the need to report a certain level of income

7



## Opportunity

- Ineffective internal controls or lack of internal controls
- Override of internal controls

8





## Rationalization

- An attitude, character or set of ethical values that allows a person to knowingly and intentionally commit a dishonest act
- Tone at the top


9



## Nature of government contributes to opportunities for fraud:

- Atmosphere of trust
- Financial constraints that limits the number of personnel
- Use of volunteers
- Mandates

10



## Responsibility

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing the auditors about all known or suspected fraud affecting the organization involving (a) management, (b) employees who have significant roles in internal control, and (c) others where the fraud could have a material effect on the financial statements.

The auditor is responsible for asking specific questions about fraud in order to understand the risks of material misstatement and to understand what the organization is doing to mitigate those risks.

Independent Auditors are not responsible to investigate and uncover transactional fraud. They ask questions from a fraud questionnaire, but their focus is on financial statement fraud.

11



## Fraud risk assessment

- Consider the control environment
- Consider control procedures
- Monitor controls

12



## Control Procedures

- Comparison of actual performance to budgets or other expectations
- Information processing controls
- Physical safeguards that limit access to assets and records
- Segregation of duties

13



## Monitoring

- Separate evaluations or
- Ongoing monitoring

The organization's reaction to the results of monitoring is a significant part of the control environment.

14



## Ways to Identify Fraud

- Interviews of staff
- Questionnaires
- Organizational group discussion
- Comparison to other organizations
- Discussion with peers

15

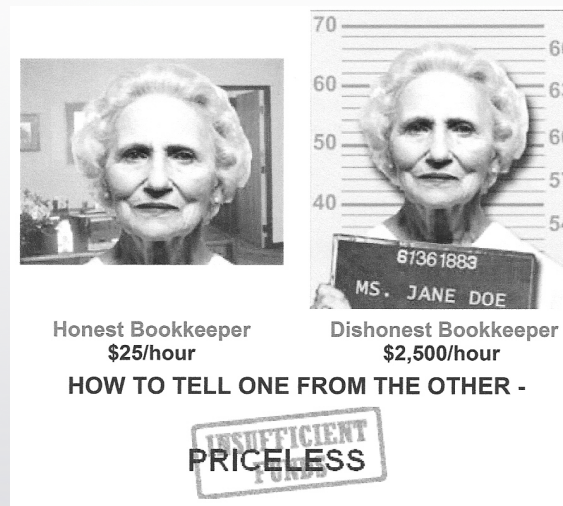


## Assessing Your Risk of Fraud

- Types of assets susceptible to fraud
- Types of revenues susceptible to fraud
- Types of expenditures susceptible to fraud
- Types of activities that are susceptible to fraud

16





17



## Crime Coverage

Three Types of Fraud:

- Financial statement fraud
- **Asset misappropriation (transactional)**
- Corruption (accepting kickbacks, engaging in conflicts of interest)

18



## Crime Coverage

- Employee Dishonesty/Faithful Performance
- Forgery or Alteration
- Inside/Outside the Premises
- Computer Fraud
- Funds Transfer Fraud / Impersonation Fraud
- Money Orders and Counterfeit Money

19



## Purpose of Bonds

- Dishonesty of Officials
  - Covered by Crime
- Violation of Oath of Office
  - Not covered by Crime
  - Original intent was to have official personally responsible to provide bond.
  - If bond was called, official would need to replace the bond or lose office.

20



## Bonds in Utah

- Purpose for Oath of Office bonds undermined based on changes to statutes
  - Cost and placement of bonds changed to be responsibility of government agency, not the individual official
  - Sureties who pay bonds may not require indemnification from individual official or government agency (Surety's Right of Exoneration)
    - Surety/Principal/Obligee

For these reasons, Sureties will not issue (or will not pay) bonds to officials in Utah.

21



## Bonds

- U.C.A. requires Governing Body to set amounts of bonds or crime insurance for elected officials:
 

• Commission/Council	• Assessor
• Executive	• Surveyor
• Clerk	• Justice Court Judge
• Auditor	• Constable
• Sheriff	• Treasurer
• Attorney	• Each Deputy
• Recorder	(optional)

Recommend setting amounts well within your crime policies, except treasurer, which should follow the Money Management Council Rule.

22



## Fraud Tip Line

- Recommended by State Auditor's Office
- UCIP has negotiated for a state-wide hotline for use by all counties